



# Coworking Trends: The New Suburban Surge

by Jeffrey Steele

The past two years have produced a dramatic surge in coworking across the U.S. Although shared space office operations represent just 1.8 percent of total U.S. office space, that statistic tells only part of the story. Coworking now accounts for 15 percent of all office space inquiries on the Yardi Commercial Listing Network (YCLN), up from 6 percent two years ago. During that same stretch, coworking space demand on the YCLN has soared a remarkable 240 percent.

---

The much-discussed changes in work patterns wrought by the pandemic are driving these developments. Office workers who previously commuted to downtowns grew accustomed to the convenience of remote work and have largely resisted returning. As a result, overall physical occupancy rates have remained stubbornly low nationally, in the 50 percent range.

However, coworking outside core urban districts is trending in the opposite direction. The suburban coworking footprint climbed from 50 to 59 million square feet in the last year alone. The same period has also generated growth in smaller, semi-suburban cities on the perimeters of major cities. The common

thread is that these enclaves and traditional suburbs are closer to the former commuters' homes than downtown office buildings.

"The factors underpinning the growth of suburban coworking primarily center on the quasi-permanent shift in work patterns and locations," said Ermengarde Jabir, senior economist with Moody's Analytics. Workers exercise clout to demand flexible work models and that hinges partly on shorter commutes on office days. Suburban offices provide space that employers can lease on flexible terms, she added.

Operators are beginning to recognize the degree of suburban opportunity. Caddo Holdings, to name one, differentiates itself by acquiring sites in prime Texas locations close to customers' homes. "Our clientele is composed of small business owners who have always been able to pick the location of their office," said Tim Slaughter, co-founder & CEO of the Plano,

Texas-based company. "If they have a choice, they will be close to home." The company's coworking brand, Caddo Office Reimagined, operates eight locations around the Dallas-Fort Worth Metroplex, with a ninth to open soon and groundbreaking for a tenth planned for summer 2024. As the owner, Caddo has the flexibility to choose locations.

There is more than one factor sparking the rise of suburban coworking. Considerations ranging from the high cost of living and concerns about crime to responsibilities at home are compelling workers of all ages to shift toward suburban areas, according to Michael Kloppenburg, vice president for flexible office solutions at Avison Young. "What is driving demand for suburban coworking is the work-near-home trend, a luxury provided to many professional service workers across North America," he said. Coworking operators are responding by bringing the office to where people live and are benefiting from lower costs compared to downtown districts.

”

*The coworking industry has a lot of innovation and it's really interesting. A lot of us who live in suburbia now want a cool hotel, a cool cocktail bar and a cool environment nearby because it simplifies our life. That's where Caddo comes in.*



**TIM SLAUGHTER**  
Co-Founder & CEO  
Caddo Holdings



## GROWTH PROSPECTS

About 7,000 office coworking locations have sprung up so far in the U.S., noted Brian Sutherland, vice president of commercial at Yardi, which monitors suburban and central business district (CBD) markets. A current national vacancy rate in the 20 percent range points to an opportunity to repurpose a sizeable share of that inventory for coworking.

As the hybrid work model reduces the need for space, tenants are eyeing alternatives, Sutherland added. About 29 percent are considering reducing their footprint, with those projected reductions averaging 30 percent. Equally significant, about 25 percent of office tenants are considering moving into flex offices in the next five years.

Coworking takes a variety of forms beyond space shared by multiple companies and individuals. In the co-warehousing model, for instance, warehouses typically occupy the rear of a property and offices take the front portion. “We’re seeing a lot of those places pick up traction and a lot of investment going into them,” Sutherland reported, citing the success of Atlanta-based Saltbox as an example. The company’s offerings range from office suites, conference rooms and warehouse suites to e-commerce logistics services along with storage to support e-commerce with an office component.

Other coworking operators are taking space in multifamily properties that previously provided business centers as resident amenities. That trend offers owners a competitive advantage. “It’s a profit center for the community — or an opportunity to gain more rent from existing and prospective residents,” Sutherland observed.



## HUB AND SPOKE

For today's office tenants, one of the biggest and most fundamental decisions is choosing which approach works best for the company. As employers reassess their space needs and some reduce their downtown footprints, centrally located Class A and Class A+ properties are still valued as places for client meetings, Jabir noted. Meanwhile, however, "Much of the day-to-day work for those who have returned to office is frequently in suburban locations that strike the balance between employee and employer — a return to in-office work while facing shorter and possibly easier commutes," Jabir added.

The hub-and-spoke model elicits a variety of perspectives from experts. By using a CBD office as a hub and satellite offices as spokes, employers can give their teams proximity to home while still benefiting from all the collaboration, teamwork and mentoring provided by offices.

One Caddo client, a therapy practice, is taking 2,500 square

feet of traditional office space for its primary location. In addition, Slaughter noted, "they want to post one or two therapists in each of our eight locations near higher-demographic neighborhoods, where their clients can pay cash for one-hour therapy sessions."

A hub-and-spoke model also appeals to office tenants who want to show they're located close to their customers. Maintaining offices in ZIP codes that generate productive online searches by prospects is another plus. And since relevant online search results are essential to effective marketing, it's advantageous for a business to be in a neighborhood with a significant number of residents and prospective customers, "As opposed to being in a neighborhood without them — it's important to be close to the people you're serving," Slaughter said. For example, one water restoration service saw instant SEO improvement when it moved to the upscale Plano market.

While hub-and-spoke models work for larger companies that are dispersing their space among satellite locations, alternatives are also attracting interest. "In other cases, we're seeing companies eliminate their central 'hub' offices altogether, allowing employees to use either coworking spaces near their homes or on-demand solutions like Despass, Desana and LiquidSpace," Kloppenburg reported. These options, including WeWork Workplace, offer access to a network of convenient, productive office spaces that align with both personal and professional needs.

It's also worth noting that not every expert sees the hub-and-spoke model as predominant. According to Jacob Rowden, manager of U.S. office research at JLL, "In recent years, as tenants have adopted more defensive office strategies in response to macroeconomic pressures, consolidation of multiple regional offices has been more dominant than hub-and-spoke office models."

## SUCCESS FACTORS

Experts also differ as to why certain outlying coworking locations achieve greater success than others. Rowden, for one, believes that location, amenities, build-out and cost will continue to be the key differentiating factors for flexible offices. Particularly in suburban locations, a main objective of any flex satellite location is limiting employee commute times. As a result, transit-accessible or centrally located properties are most likely to outperform, he said.

Jabir, on the other hand, believes that flexibility in lease terms is the No. 1 ingredient for success. That quality makes those spaces

“attractive to employers wanting to encourage their workforce to return to the office, but perhaps not willing to commit to leasing office space in suburban areas on a long-term basis as space needs and employee preferences for work locations evolve.”

Many coworking operators prefer suburban locations close to other brands, in much the same way automobile dealers often congregate in “dealership rows.” Caddo prefers the opposite tack.

The first location the firm acquired was three miles away from the nearest office. “We want to be anti-proximate to business

centers,” Slaughter said. “The guys who are in retail site selection are very analytical and we approach it the way they do, looking at demographics like population density, incomes, education levels and family size...There are also more subjective factors like traffic access or proximity to lakes, which can be a positive or a negative based on your perspective.”

Kloppenborg recommends a similarly analytical approach that includes such factors as population growth, access to retail and entertainment amenities, parking availability and other local considerations.

”

*As employee preferences regarding work structures continue to evolve, so too would it be wise for office developers, investors and lenders to adapt rather than becoming attached to what could very well be short-term trends in the office sector.*



**ERMENGARDE JABIR**  
Senior Economist  
Moody's Analytics

Avison Young clients tend to converge on mixed-use properties that offer lively retail venues, as opposed to what Kloppenburg calls “mature, isolated and obsolete” suburban office parks. “That suggests not all generic suburban office buildings with coworking will be successful,” he said. “In the absence of attractive amenities found in mixed-use neighborhood centers with retail, coworking locations will likely struggle alongside their

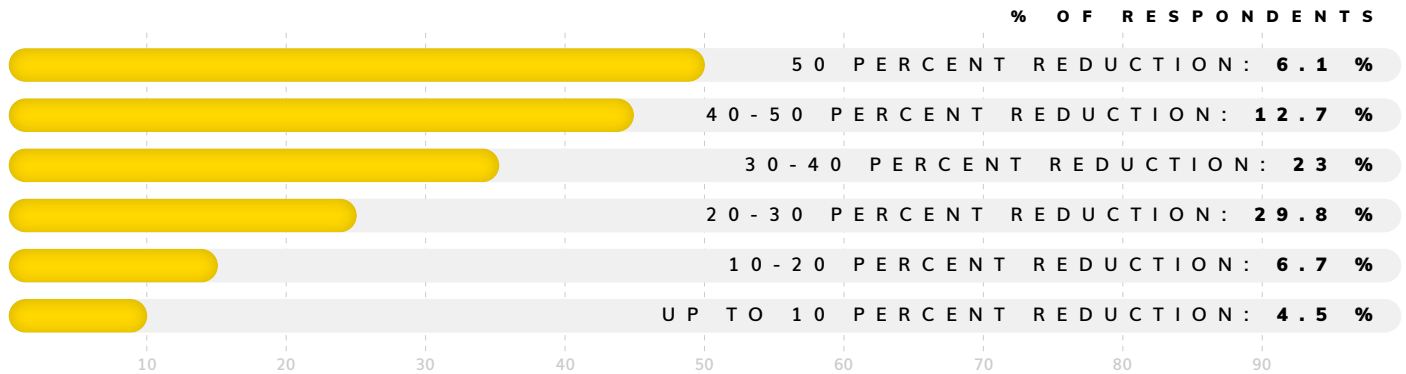
landlords to attract and retain quality tenants.” Keeping in mind the importance of location and accessible amenities, suburban operators should carefully assess feasibility before making major investments in new locations, he advised.

When it comes to success differentiators, nothing compares to what Sutherland calls the three C’s: culture, collaboration and coaching. “The opportunity for that

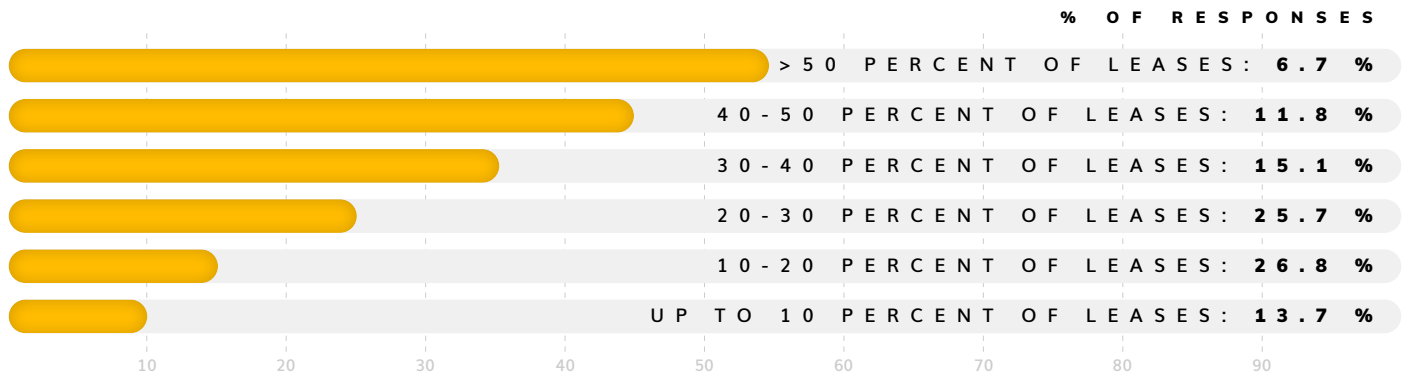
is much greater in a coworking location,” he observed. “There’s cross-pollination, where you hear people in other businesses talking at the water cooler. It’s nice to get that connection, meet new people, be in an environment that’s more vibrant and more active without having to go all the way into the central business district. If you can get something in your local community, it’s much quicker than commuting downtown.”

## LONGER-TERM OUTLOOK

A survey of more than 500 corporate real estate professionals at the CoreNet Global Summit offers further evidence that hybrid work will reduce the traditional office space needs for many corporate real estate users. A significant majority said they expect to trim their space needs by double digits:



Asked what percentage of portfolios will move from traditional to flex leases in five years, survey participants gave equally telling responses:



With 60 percent of corporate clients expecting to transition at least 20 percent of their portfolio to flex leases, about 600 million square feet of flex space will be needed in the next half-decade, Yardi estimates.

The prominence of flexibility in office access is evident in the choices Sutherland currently enjoys. As an end user of a Yardi-developed app called Workplace, he can enter the company's Santa Barbara headquarters, open the app and choose the desk or office he prefers for that day. If he were to visit Yardi's Midtown Manhattan office, he could do the same. And if he headed downtown, he could choose a WeWork location.

As they look to the future, experts seem to agree that the future of flex space isn't locked into any one geographic area. The outlook for future growth of suburban coworking will depend to a significant degree on how well large cities and urban centers manage the evolving transition between remote and hybrid work, Kloppenburg predicted.

"It is not necessarily binary, but in the absence of viable urban options, suburbs with vibrant and growing communities with strong retail centers will thrive," he said. "There remains a tremendous amount of obsolete buildings, both urban and suburban, that will require

”

*It's not necessarily binary, but in the absence of viable urban options, suburbs with vibrant and growing communities with strong retail centers will thrive.*



**MICHAEL KLOPPENBURG**

Vice President for  
Flexible Office Solutions  
Avison Young

significant investment and reimagining to attract the future workforce."

Despite some significant pandemic-era downsizing in urban settings, Slaughter feels that it's premature to assume that coworking is destined to become a mostly suburban phenomenon. "I think urban coworking is really cool and really good and the best ones are in walkable communities in urban environments," he stated.

The Hoxston, a trendy hotel situated in Chicago's ultra-hot Fulton Market enclave, offers a discounted rate of \$65 after 9 p.m. to those who have coworking contracts nearby. "The coworking industry has a lot of innovation and it's really interesting," Slaughter said. "A lot of us who live in suburbia now want a cool hotel, a cool cocktail bar and a cool environment nearby because it simplifies our life. That's where Caddo comes in."

Employers are still searching for flexibility, Rowden noted, but the push to transform office portfolios may be slowed temporarily by tenants' economic concerns and fluidity in the coworking sector. Yet in the long run, he predicted, "Shifts to greater remote and hybrid work and a wider geographic distribution of employees since the pandemic will work in favor of coworking spaces."



The suburbs offer ample room for coworking growth because many employers want and need their workers back in the office, Jabir said. She pointed to the financial services industry, where companies regulated by the SEC and FINRA are finding that allowing staff to work at home can make the cost of compliance prohibitive. In response, these firms are instituting strict in-office policies.

Rather than lose talented team members who don't want to comply with mandates, financial services firms might be inclined to lease suburban coworking office space. That could make employees more willing to return to the office full time while also trimming commuting times and costs.

"As employee preferences regarding work structures continue to evolve, so too would it be wise for office developers, investors and lenders to adapt rather than becoming attached to what could very well be short-term trends in the office sector," Jabir added.

---

## Contact us to discuss the Yardi Kube solution that's right for you.

 [sales@yardi.com](mailto:sales@yardi.com) or (800) 866-1144

 | Energized for Tomorrow